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COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION

AT RICHMOND, DECEMBER 20, 2000

APPLICATION OF

THE POTOMAC EDISON COMPANY
d/b/a ALLEGHENY POWER

CASE NO. PUE000280

For approval of a Functional
Separation Plan

and

COMMONWEALTH OF VIRGINIA, ex rel.

STATE CORPORATION COMMISSION

CASE NO. PUE000736

Ex Parte: THE POTOMAC EDISON
COMPANY d/b/a ALLEGHENY POWER
REGIONAL TRANSMISSION ENTITIES

ORDER PRESCRIBING NOTICE AND INVITING
COMMENTS AND/OR REQUESTS FOR HEARING

Sections 56-577 and 56-579 of the Virginia Electric Utility Restructuring Act ("the Act"), Chapter 23 (§ 56-576 et seq.) of Title 56 of the Code of Virginia, require Virginia's incumbent electric utilities to (i) join or establish regional transmission entities ("RTE") by January 1, 2001, and (ii) seek authorization from the State Corporation Commission ("Commission") to transfer their transmission assets to such RTEs.

Specifically, § 56-577 A states in pertinent part that:

[O]n or before January 1, 2001, each incumbent electric utility owning, operating, controlling, or having an entitlement to transmission capacity shall join or establish a regional transmission entity, which entity may be an independent system operator, to which such utility shall transfer the management and control of its transmission system, subject to the provisions of § 56-579.

Furthermore, § 56-579 A 1 provides in pertinent part that:

[N]o such incumbent electric utility shall transfer to any person any ownership or control of, or any responsibility to operate, any portion of any transmission system located in the Commonwealth without obtaining the prior approval of the Commission, as hereinafter provided.

The Commission was directed by § 56-579 B to adopt rules and regulations, with appropriate public input, establishing elements of RTE structures essential to the public interest. These elements were to be applied by the Commission in determining whether to authorize transfer or control of incumbent utilities' transmission assets to RTEs. The Commission was also directed by § 56-579 A 2 to develop rules and regulations under which incumbent electric utilities owning, operating, controlling, or having an entitlement to transmission capacity within the Commonwealth, may transfer all or part of such control, ownership, or responsibility to an RTE upon certain terms and conditions prescribed by the Commission.

On July 19, 2000, the Commission adopted in Case No. PUE990349 regulations governing incumbent electric utilities' transfer of the ownership or control of transmission assets, or entitlements thereto, to RTE's (20 VAC 5-320-10 et seq.).

On October 16, 2000, The Potomac Edison Company d/b/a Allegheny Power ("AP" or the "Company") filed an application wherein it requests that the Commission accept the October 5, 2000, Memorandum of Agreement between AP and PJM Interconnection, L.L.C. ("PJM"), an independent system operator ("ISO"), as statement of AP's commitment to join or establish an RTE. The Company states that, assuming a successful negotiation of a final agreement, it will file an application to transfer control, ownership, or responsibility for its transmission capacity to PJM as required by 20 VAC 5-320-90 within 90 days of the expected date of PJM West,¹ or by no later than September 15, 2001.

AP states that, in the event the Commission finds AP's commitment under the Memorandum of Agreement to develop the PJM West concept not to be sufficient to meet the requirements of

¹ The agreement in principle calls for an affiliation between the existing PJM control area called "PJM East" with the control area(s) currently operated by AP and any other entities that may in the future participate in the alliance known as "PJM West". The parties recognize that initially two or more control areas will exist over which the PJM Office of Interconnection will operate the PJM market structure.

the Act or the Commission's regulations concerning a utility's obligation to join or establish an RTE by January 1, 2001, it requests the Commission to delay implementation of this requirement and to waive the filing of an application under Rule 20 VAC 5-320-90 until September 15, 2001.

We are of the opinion that this matter should be considered in a separate docket, apart from the remaining issues to be considered in Case No. PUE000280. We further find that public notice should be given and interested persons should have the opportunity to comment and request a hearing on the application. Accordingly,

IT IS ORDERED THAT:

(1) This matter is docketed and assigned Case No. PUE000736.

(2) AP shall promptly make a copy of its application and supporting materials available to the public who may obtain a copy of the application, at no charge, by requesting it in writing from AP's counsel at the address detailed below.

(3) Any interested person wishing to comment on AP's application or desiring a hearing shall, on or before January 30, 2001, file such written comments and/or requests with Joel H. Peck, Clerk, State Corporation Commission, c/o Document Control Center, P.O. Box 2118, Richmond, Virginia 23218, and refer to Case No. PUE000280. Any request for hearing

shall detail reasons that such issues cannot be adequately addressed in written comments.

(4) Any person filing comments or requests for hearing may also file, on or before January 30, 2001, a Notice of Protest.

(5) A copy of such comments, requests for hearing, and Notice of Protests shall simultaneously be sent to counsel for the Company as follows: Philip J. Bray, Esquire, Allegheny Power Company, 10435 Downsville Pike, Hagerstown, Maryland 21740-1766.

(6) The Commission Staff shall review the application and shall file, on or before March 14, 2001, a report detailing the results of its investigation.

(7) AP shall respond to written interrogatories within seven (7) calendar days after receipt of same. Except as modified above, discovery shall be in accordance with Part VI of the Commission's Rules of Practice and Procedure.

(8) On or before January 23, 2001, AP shall publish the following notice as display advertising, not classified, once in newspapers of general circulation throughout its service territory:

NOTICE OF COMMONWEALTH OF VIRGINIA, EX REL.
STATE CORPORATION COMMISSION, EX PARTE: THE
POTOMAC EDISON COMPANY d/b/a ALLEGHENY POWER
REGIONAL TRANSMISSION ENTITIES
CASE NO. PUE000736

On October 16, 2000, The Potomac Edison Company d/b/a Allegheny Power ("AP" or the "Company") filed pursuant to § 56-579 of the Virginia Electric Utility Restructuring Act ("Act") an application requesting that the State Corporation Commission accept the October 5, 2000, Memorandum of Agreement between AP and PJM Interconnection, L.L.C. ("PJM"), an independent system operator ("ISO"), as statement of AP's commitment to join or establish an RTE as required by the Act. The Company states that, assuming a successful negotiation of a final agreement it will file an application to transfer control, ownership, or responsibility for its transmission capacity to PJM as required by 20 VAC 5-320-90 within 90 days of the expected date of PJM West, or by no later than September 15, 2001.

AP states that in the event the Commission finds AP's commitment under the Memorandum of Agreement to develop the PJM West concept not to be sufficient to meet the requirements of the Act or the Commission's regulations concerning a utility's obligation to join or establish an RTE by January 1, 2001, it requests the Commission delay implementation of this requirement and waive the filing of an application under Rule 20 VAC 5-320-90 until September 15, 2001.

A copy of the above-referenced application is available for inspection during regular business hours at the State Corporation Commission, Document Control Center, First Floor, Tyler Building, 1300 East Main Street, Richmond, Virginia. Interested persons may obtain a copy of the application, at no charge, by requesting a

copy in writing from AP's counsel at the address noted below.

Comments on the application must be submitted in writing to Joel H. Peck, Clerk, State Corporation Commission, P.O. Box 2118, Richmond, Virginia 23218, on or before January 30, 2001. Requests for hearing must also be received by the Clerk on or before January 30, 2001. Requests for the hearing shall state why a hearing is necessary and why such issues cannot be adequately addressed in written comments. Any person filing comments or requests for hearing may also file a Notice of Protest on or before January 30, 2001.

All correspondence should refer to Case No. PUE000736. A copy of any comments or requests for hearing, and Notice of Protest must also be sent to counsel for AP as follows: Philip J. Bray, Esquire, Allegheny Power Company, 10435 Downsville Pike, Hagerstown, Maryland 21740-1766.

If no sufficient request for hearing is received, a formal hearing might not be held.

THE POTOMAC EDISON COMPANY
d/b/a ALLEGHENY POWER

(9) The Company shall forthwith serve a copy of this Order on the Chairman of the Board of Supervisors of any county and upon the Mayor or Manager of any county, city, or equivalent officials in the counties, towns, and cities having alternate forms of government in their service territories. Service shall be made by first-class mail or delivery to the customary place of business or residence of the person served.

(10) On or before April 16, 2001, the Company and any interested person may file with the Clerk of the Commission any response to Staff's Report.

(11) On or before January 30, 2001, the Company shall provide the Commission with proof of notice required in Ordering Paragraphs (8) and (9).